

Frequently Asked Questions Accessory Dwelling Units (ADUs)



What is the Vermont Housing Improvement Program (VHIP) 2.0?	2
How much funding are ADU projects eligible for?	2
What are the differences between the 5-year and the 10-year 0% interest forgivable loan projects?	2
Are Accessory Dwelling Units (ADUs) exempt from the requirement to find a suitable tenant exiting homelessness?	2
How does a forgivable loan work?	2
How are 5-year loans converted to 10-year loans?	3
What are the program requirements?	3
How do I file a forgivable loan agreement?	3
When is the 20% match requirement due?	4
What expenses are eligible towards the 20% match requirement?	4
What happens if I choose the 5-year option, and I can't find a suitable tenant through the homeless service organization referral process?.....	4
What is considered an eligible unit?	4
How are VHIP 2.0 funds disbursed?	5
Who determines the scope of work and selects the contractor?	6
What role do building codes and local officials play in developing the scope of work and permitting for my project?	6
Do ALL Housing Code Violations need to be addressed in Occupied Units?	6
What is the deadline for construction?	6
What happens if I don't meet this deadline?	6
Who reviews and approves or denies the extension request?	6
How do I apply to receive VHIP 2.0 funding? Which Homeownership Center should I contact?	7

What is the Vermont Housing Improvement Program (VHIP) 2.0?

The Vermont Housing Improvement Program (VHIP) 2.0 gives 0% interest forgivable loans to property owners to create or improve affordable rental units. VHIP 2.0 funds different types of projects. It can help fix units with code violations, change non-residential buildings into homes, or build new buildings with up to 5 rental units. There are also additional funds available to apply to projects that commit to developing ADA compliant housing. Participants need to contribute a 20% match of the funding they receive. Property owners must keep the rental units affordable and available for long-term rentals. 5-year projects also commit to renting to tenants through homeless service or refugee organizations.

How much funding are ADU projects eligible for?

Accessory Dwelling Units (ADUs) are eligible for up to \$50,000.

What are the differences between the 5-year and the 10-year 0% interest forgivable loan projects?

VHIP 2.0 provides funding for projects through forgivable loans. Forgivable loans work similarly to grants, because there isn't a loan committee or credit check involved like in a traditional loan.

The main difference between five and ten-year forgivable loans is the length of the compliance period. The compliance period is how long you must follow the rules for the property set up in their VHIP legal agreements you will sign. This period starts when a tenant first occupies the unit. You may choose a 5- or 10-year compliance period. Five-year projects also require you to work with a homeless services or refugee organization to find a tenant who is exiting homelessness. If you get approval from the Department of Housing and Community Development (DHCD), you can convert 5-year into 10-year forgivable loans (learn more [here](#)).

During the compliance period, you must rent the unit at or below the Fair Market Rent set by the United States Department of Housing and Urban Development (HUD), and follow other program requirements. To learn more, look at the [Program Requirements](#) section. You can use a Fair Market Rent Calculator on [DHCD's website](#) to determine the amount of rent you would be allowed to charge for a unit. To use the calculator, fill out unit and lease details, and which utilities the tenant must pay. The calculator will give you the maximum allowable rent based on the information you enter.

FMR requires that all utilities are included in rent. If the tenant must pay any utilities, deductions are taken from maximum allowable rent.

Forgivable loans may be taxable income. You are strongly encouraged to seek advice from a tax professional if you are unsure about how this may impact your tax situation.

Are Accessory Dwelling Units (ADUs) exempt from the requirement to find a suitable tenant exiting homelessness?

No. If you choose the 5-year option for your ADU, you must work with a homeless service or refugee organization, like Coordinated Entry, to find a suitable tenant who is exiting homelessness. However, if you pick the 10-year forgivable loan option, you do not have to take referrals for tenants from these organizations.

How does a forgivable loan work?

The VHIP 2.0 program offers a 0% interest forgivable loan. This loan is forgiven at a rate of 20% per year for five-year loans, and 10% per year for ten-year loans. You must meet the program requirements for the entire

compliance period to have the entire loan forgiven. If you fail to meet the requirements for any year or decide to leave the program early, you will need to repay some of the loan to the State of Vermont, based on how many years your unit participated in the program.

For example, if you only lease the unit at or below Fair Market Rent for 7 years of a 10-year loan, you will need to repay 30% of the funding (for the 3 years remaining). You must pay back remaining funds in one lump-sum if you exit the program before your 10-year compliance period is done.

How are 5-year loans converted to 10-year loans?

If you get approval from the Department of Housing and Community Development (DHCD), you can change the 5-year loan to a 10-year loan. When you convert a grant to a forgivable loan, the VHIP units are excused from renting to a household that is exiting homelessness. To make this change, you need to write a letter to DHCD. In the letter, explain why you want to convert the grant to a forgivable loan.

If DHCD approves your request, they will reduce the amount you owe on the loan based on how long you followed the loan rules. They forgive 10% of the loan for each year you kept the loan requirements of a 10-year loan, or 20% of the loan for each year you kept the 5-year loan. (1 year of 10-year = 10% OR 1 year of 5-year loan = 20%).

For example, if you received \$50,000 and followed the 10-year loan rules for 2 years, you would get \$10,000 forgiven (20% of the loan). You would then need to follow the forgivable loan terms for 8 more years to get the remaining \$40,000 forgiven completely.

What are the program requirements?

VHIP 2.0 requires participants to:

- Match 20% of the award funds
- Sign a Forgivable Loan Agreement stating you will charge a rent at or below Fair Market Rent for the duration of the agreement (5 or 10 years)
- Complete short, interactive Fair Housing Education videos
- Complete the project within 18 months of the signed agreement
- Follow the tenant selection requirements

Additional requirements for the 5-year grant option:

- Find a suitable renter exiting homelessness through a homeless service or refugee organization, like a Coordinated Entry (CE) Lead Organization or a suitable tenant actively working with an immigrant or refugee resettlement program. This arrangement shall continue at unit turnover for a minimum of 5 years from the date a tenant first occupies the unit.

How do I file a forgivable loan agreement?

If you receive a VHIP 2.0 award, you must sign either a 5- or 10-year Forgivable Loan Agreement. The town will file these documents in their land records. These agreements are legally binding, which means they stay with the property and encumber it. An encumbrance is a claim against a property by a party who is not the owner. You should review these documents with your Homeownership Center before filing them.

First, contact your Homeownership center to complete a Forgivable Loan Agreement, as well as the HOC-Property Owner Agreement.

You will return signed and notarized Forgivable Loan Agreement/s to the following Homeownership Centers to be recorded with the town/city clerk:

- Champlain Housing Trust
- Downstreet Housing & Community Development
- Windham & Windsor Housing Trust

You will be responsible for recording signed and notarized Forgivable Loan Agreement/s with the town/city clerk and providing a copy to the following homeownership centers:

- Cornerstone Housing Partners (formerly NeighborWorks of Western Vermont)
- RuralEdge

When is the 20% match requirement due?

If your Homeownership Center approves you for a VHIP 2.0 award, you must provide a 20% match of awarded funds **before requesting any program funds**. For example, if you are approved for a \$50,000 grant, you will be required to provide a \$10,000 match before your HOC disburses any award funds.

What expenses are eligible towards the 20% match requirement?

If you have an approved VHIP 2.0 project and sign a Forgivable Loan Agreement, you can count any expenses you make after that date toward your match requirement. There are different ways to provide your match for the award funds. You can pay for expenses directly from your own money, apply for a loan, contribute your time and effort through “sweat equity” by working on the project, or use another grant to help cover the costs.

Keep in mind that expenses you incur before signing the agreement cannot count toward the match requirement or for reimbursement. There may be an exception for certain pre-development costs. Pre-development costs can include permits, zoning fees, or hiring engineers and architects. These costs can qualify if you have proof of the work, and if you complete it after you submitted the VHIP application. Remember, just because you submit a complete application does not guarantee approval. Starting any work before signing the grant agreement can be risky.

What happens if I choose the 5-year option, and I can’t find a suitable tenant through the homeless service organization referral process?

If you are unable to find a suitable tenant through the established referral process, you may submit a waiver request to the Department of Housing and Community Development (DHCD). If DHCD approves your waiver request, you will need to lease the unit to a household with an income equal to or less than 80% of the area median income. If you can’t find such a household, you may lease to another household, with the approval of DHCD.

What is considered an eligible unit?

An Accessory Dwelling Unit (ADU) is a smaller, independent living space on the same lot as an existing single-family home. The primary living space must be owner-occupied to meet the Vermont definition of ADU to be eligible for this type of award. ADUs come in many different forms. An ADU may be located on a separate floor, in a garage, a basement, an addition, or in a detached unit, like a converted carriage barn.

Can a family member move into an ADU built through the program?

This depends on the type of award selected. With the 5-year project option, you are required to work with homeless service organizations to identify a suitable tenant exiting homelessness. ADUs selecting the 10-year

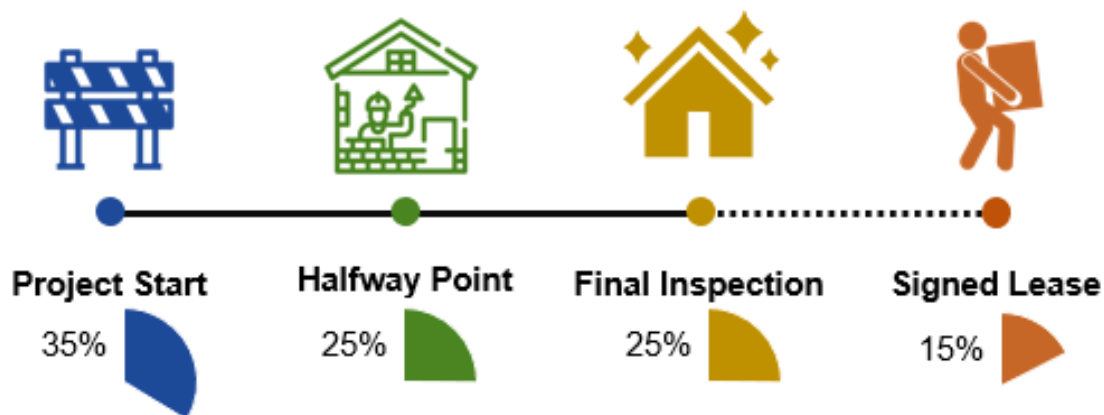
option can be used for family members. VHIP's goal is to create new rental units, so an ADU planned for a family member may be a lower-priority project for the Homeownership Center.



Adapted from: Wake County North Carolina. (2023). Ready to Apply for an ADU. <https://www.wake.gov/departments-government/planning-development-inspections/inspections-permits/accessory-dwelling-units/ready-apply-adu>

How are VHIP 2.0 funds disbursed?

VHIP 2.0 funds are reimbursed at four points during approved projects. This means so you will need to have the funds upfront to cover these expenses until you receive payment. You will also need to meet the 20% match requirement before requesting funds. For your HOC to pay you back for the work on your VHIP 2.0 unit, you need to submit invoices or receipts showing the expenses.



VHIP forgivable loan funds are reimbursed at four different points during the project:

- 35% when the project starts
- 25% at the halfway point of the project, when you return the fully executed and notarized original Forgivable Loan Agreement to the HOC
- 25% upon satisfactory final inspection of the unit to ensure it complies with the agreed upon scope of work
- 15% once all receipts have been shared with the HOC, all code and occupancy inspections have been completed, and a lease for the apartment has been signed

Who determines the scope of work and selects the contractor?

To apply, you will need a basic idea of the work needed to be completed to bring the unit into compliance with the Vermont Rental Housing Health Code guidelines. The Homeownership Center you are working with will visit the site to check that the scope of work meets program guidelines and identify any other items that may need addressing. You must choose the contractor and sign a contract that ensures the project will be complete within 18 months of signing the forgivable loan agreement.

What role do building codes and local officials play in developing the scope of work and permitting for my project?

Complete rental units must meet the Vermont Rental Housing Health Code and local ordinances. The town health officer and regional Division of Fire Safety officer will inspect your rental units for life-safety codes issues when you are developing the scope of work for your project. They will help you understand the important rules to keep in mind as you plan your project. **It is important to note that these officials will inspect the entire property that abuts the VHIP project.** When you finish the work, these code officials will inspect your property and approve it for occupancy. It's helpful to work with them from the beginning as you are developing the scope of work and obtaining the proper permits.

Do ALL Housing Code Violations need to be addressed in Occupied Units?

Owners must fix all fire, housing, or health code violations identified in occupied units and common areas. These corrections are required by law, and owners face fines and penalties if they don't make the necessary repairs.

This applies even if the owner does not move forward with the VHIP 2.0 program. We encourage you to discuss your project with your local HOC before scheduling an inspection.

What is the deadline for construction?

You should have the unit finished and ready for occupancy within 18 months after signing the VHIP 2.0 forgivable loan agreement.

What happens if I don't meet this deadline?

If you don't finish construction by the deadline, you will lose the undisbursed remainder of the award funds. You can ask for more time to complete your project, and the Homeownership may extend project deadlines on a case-by-case basis if you can show there was a good-faith effort to meet the original deadline. Once you have a plan and timeline to complete the project, you will need to complete a Project Extension Form and submit it to your Homeownership Center (HOC).

Who reviews and approves or denies the extension request?

If you request a project extension of less than 6 months, your HOC will review and approve or deny the extension request. For extension requests greater than 6 months, the HOC will sign the Extension Request Form to show they approve of the new plan to complete the project, and the Department of Housing and Community Development will review it.

How do I apply to receive VHIP 2.0 funding? Which Homeownership Center should I contact?

Please contact your local Homeownership Center to learn more about VHIP 2.0 and receive application assistance.

Counties Served	Homeownership Center	Contact Information
Caledonia, Essex, and Orleans Counties	RuralEdge	rentalrehab@ruraledge.org 802-473-3919
Chittenden, Franklin, and Grand Isle Counties	Champlain Housing Trust	vhjp@getahome.org 802-861-7389
Addison, Bennington, and Rutland Counties	Cornerstone Housing Partners	info@nwwvt.org 802-438-2303
Lamoille, Orange, and Washington Counties	Downstreet Housing & Community Development	rcarpenter@downstreet.org 802-477-1330
Windham and Windsor Counties	Windham & Windsor Housing Trust	info@homemattershere.org 802-246-2126